

Message Text

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ACTION EUR-12

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E.O. 11652 N/A

TAGS: EGEN DA

SUBJECT: NATIONAL BANK GOVERNOR URGES ECONOMIC AUSTERITY

REF: A. COPENHAGEN 3031, B. COPENHAGEN 2661

BEGIN SUMMARY: NATIONAL BANK GOVERNOR HOFFMEYER
AT ANNUAL BANK MEETING WARNED THAT FAILURE BY
PARLIAMENT TO ADOPT PROPOSED BUDGETARY SAVINGS
WOULD FORCE NATIONAL BANK TO FREEZE RESULTANT
EXCESSIVE MONEY SUPPLY BY RETURN TO TIGHTER
RESERVE REQUIREMENTS. HOFFMEYER PAINTED DARK ECONOMIC
PICTURE AGAINST BACKGROUND OF ALREADY HIGH
LEVELOF FOREIGN DEBTS AND CALLED FOR NATIONAL
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SOLIDARITY TO CURTAIL INFLATIONARY PRESSURE.
ECONOMICS MINISTER NYBOE
ANDERSEN AT SAME MEETING EXPRESSED HOPES FOR
DISCOUNT REDUCTION DECLINE IN MORTGAGE BOND
RATES. END SUMMARY

1. NATIONAL BANK GOVERNOR ERIK HOFFMEYER, AT
ANNUAL MEETING OF COMMERCIAL BANKS NOVEMBER 20
WARNED THAT EXCESSIVE EASING OF FISCAL POLICY
MIGHT FORCE THE NATIONAL BANK TO TIGHTEN BANKS RESERVE
REQUIREMENTS. HOFFMEYER'S WARNING WAS ISSUED AGAINST
BACKGROUND OF PRESENT ANTICYCLICAL EFFECT OF
FISCAL BUDGET WHICH BECAUSE OF SHARPLY RISING
UNEMPLOYMENT BENEFIT PAYMENTS CONCURRENT WITH
DECLINING EXCISE TAX REVENUES HAS SWUNG FROM
PLANNED BUDGET SURPLUS OF 3 BILLION KRONER TO
NOW ANTICIPATED 3 BILLION KRONER DEFICIT (DOLS
500 MILLION) ALREADY SCHEDULED INCOME TAX
RELIEF IN 1975 EXPECTEDLY WILL INCREASE BUDGET
DEFICIT TO ABOUT DOLS ONE BILLION
THE FOLLOWING YEAR.

2. HOFFMEYER SAID THAT EASY-GOING POLICY OVER
PAST YEARS, WHICH HAD RESULTED IN EVER INCREASING
BALANCE OF PAYMENTS DEFICIT AND RISING FOREIGN
DEBTS NOW PREVENTED DENMARK FROM USING PUBLIC
OUTLAYS TO STIMULATE DECLINING EMPLOYMENT.
HE CONCEDED THAT NON-OIL DEFICIT HAD BEEN
ALLEVIATED DURING LATTER PART OF 1974 BUT
BELIEVED DENMARK STILL MUST EXPECT ANNUAL CURRENT
DEFICITS OF ABOUT DOLS 600-800 MILLION FOR PRO-
LONGED PERIOD OF TIME. INTERNATIONAL FINANCING
OF THESE DEFICITS WHETHER THROUGH EC ARRANGEMENTS
OR OTHERWISE WOULD REQUIRE CONFIDENCE ABROAD
IN ABILITY OF DENMARK TO STABILIZE ECONOMIC
POLICY. HOFFMEYER REFERRED TO ALREADY ADOPTED
IMPROVEMENTS IN LONG-TERM EXPORT CREDITS AND
EASING OF CREDIT CEILINGS GRANTED THIS FALL BUT
SAID FURTHER MONETARY EASING WOULD BE IMPOSSIBLE
BECAUSE OF DETRIMENTAL EFFECTS IT WOULD HAVE
ON BALANCE OF PAYMENTS AND RESERVE BALANCES.
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3. HOFFMEYER COMPARED PRESENT DANISH ECONOMIC
CONDITION TO CRISIS SITUATIONS IN EARLY '30S
AND '40S AND CALLED FOR NATIONAL SOLIDARITY.
HE NOTED THAT LONG-STANDING PRICE AND WAGE PROBLEMS
HAVE NOW BECOME AGGRAVATED TO POINT WHERE ANY
PRICE OR WAGE RISE IS REFLECTED DIRECTLY IN RISING

UNEMPLOYMENT. HOFFMEYER TRUSTED ON THE OTHER HAND THAT WELL-DEVELOPED MONETARY SYSTEM COULD TAKE CARE OF NECESSARY FINANCING PROVIDED THAT ECONOMIC STABILITY WAS ESTABLISHED.

4. AT SAME MEETING, ECONOMICS MINISTER NYBOE ANDERSEN EXPRESSED GOVERNMENT'S HOPES THAT DEVELOPMENTS SHORTLY WOULD PERMIT DISCOUNT REDUCTION.

5. EMBASSY COMMENT: REDUCED ACTIVITY AND DEMAND PARTICULARLY IN BUILDING SECTOR BUT ALSO IN PRIVATE INVESTMENT AND CONSUMPTION TOGETHER WITH SOME WEAKENING OF EXPORTS ARE AT PRESENT CAUSING PRONOUNCED DANISH RECESSION WITH UNEMPLOYMENT MOVING TOWARD 5 P.C. ANNUAL RATE. WITH CONCURRENTLY REDUCED CAPITAL REQUIREMENTS RATE OF INTEREST IN DOMINANT MORTGAGE BOND MARKET HAS DROPPED SEVERAL PERCENT FROM RECORD 17 PERCENT LEVEL OF SEVERAL MONTHS AGO. COMMERCIAL BANKS REPORT AMPLE LIQUIDITY WITHIN UNUTILIZED (RECENTLY LIBERALIZED) CREDIT CEILINGS. AT SAME TIME MINORITY LIBERAL GOVERNMENT IS FACED WITH POLITICAL RESISTENCE AGAINST FOLLOW-UP LEGISLATION TO IMPLEMENT BUDGET CUTS PREVIOUSLY AGREED TO IN PRINCIPLE WHEN 1975 INCOME TAX RELIEF PROGRAM WAS PASSED. REDUCED BUILDING ACTIVITY IS EXPECTED FURTHER TO WEAKEN BOND MARKET AND REDUCE MORTGAGE INTEREST RATES. DISCOUNT RATE REDUCTION FROM PRESENT 10PC LEVEL WOULD REFLECT RECENT BOND MARKET DEVELOPMENTS BUT WOULD ALSO DEPRESS BANK RATES. SHOULD DANISH INTEREST RATES BECOME LOWER THAN INTERNATIONAL RATES DANISH INTERNATIONAL TRADERS MIGHT CHOOSE LIMITED OFFICIAL USE

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DOMESTIC OVER FOREIGN FINANCING WHICH COULD EXERT PRESSURE ON FOREIGN EXCHANGE RESERVES. HOFFMEYER'S WARNINGS REFLECT THIS SITUATION AND ALSO PROVIDE PRESSURE ON POLITICIANS TO ACT ON BUDGETARY AUSTERITY PROGRAM. ANDERSEN'S CONCURRENT PLEDGE OF CHEAPER MONEY MUST BE REVIEWED AGAINST HOFFMEYER'S DECLARED INTENTION TO KEEP AVAILABLE MONEY SUPPLY WITHIN BOUNDS.
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